

# **South Bay Regional Public Communications Authority**

Hawthorne, California

## **Annual Financial Report**

*For the Years Ended June 30, 2019 and 2018*





**Board of Directors as of June 30, 2019**

<u>Name</u>	<u>City Represented</u>	<u>Title</u>
Rodney Tanaka	City of Gardena	Chairman
Haidar Awad	City of Hawthorne	Vice-Chairman
Hildy Stern	City of Manhattan Beach	Member

*South Bay Regional Public Communications Authority  
4440 West Broadway  
Hawthorne, California 90250*

**South Bay Regional Public Communications Authority**  
**Annual Financial Report**  
**For the Years Ended June 30, 2019 and 2018**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of the South Bay Regional Public Communications Authority  
Hawthorne, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South Bay Regional Public Communications Authority (the "Authority"), as of June 30, 2019 and 2018 and for the years then ended, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2019 and 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
of the South Bay Regional Public Communications Authority  
Hawthorne, California  
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***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 6, and the Schedule of the Authority's Proportionate Share of the Plan's Net Pension Liability and Related Ratio, the Schedule of Contributions – Pensions, the Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratio, and the Schedule of Contributions – Other Postemployment Benefits on pages 39 through 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The Pen Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California  
February 12, 2020

**South Bay Regional Public Communications Authority**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Years Ended June 30, 2019 and 2018**

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the South Bay Regional Public Communications Authority (Authority) provides an introduction to the financial statements of the Authority for the years ended June 30, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- In 2019, the Authority's net position decreased 26.4% or \$1,755,278, due primarily to the use of unrestricted net position in the amount of \$1,733,647 to complete the purchase of mobile and portable radios and accessories with Motorola Solutions.
- In 2018, the Authority's net position increased 41.6% or \$3,366,966 (including the restatement due to implementation of GASB Statement No. 75 amounted to \$(1,410,584)) from \$4,702,365 to 6,658,747.
- In 2019, the Authority's operating revenues increased 0.8% or \$98,899, due primarily to additional assessment received from member and contract cities for purchase agreement with Motorola Solutions.
- In 2018, the Authority's operating revenues increased 13.2% or \$1,472,626 due primarily to the annual assessment received from Culver City and the increase of billable parts revenue received.
- In 2019, the Authority's operating expenses increased 25.0% or \$3,236,599, due primarily to the completion of purchases related to the Urban Areas Security Initiative (UASI) grant in the amount of \$1,602,473 and completion of the purchase agreement with Motorola Solutions for mobile and portable radios.
- In 2018, the Authority's operating expenses increased 17.1% or \$1,888,746 due primarily to provide services for Culver City and the increase of Pension liability.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The financial statements are comprised of two components: 1) financial statements and, 2) notes to financial statements.

This report also contains other supplementary information in addition to the financial statements themselves. The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Authority's assets, deferred outflow of resources, liabilities, and deferred inflow of resources with the difference between the four reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities.

**South Bay Regional Public Communications Authority**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Financial Analysis of the Authority**

One of the most important questions asked about the Authority's finances is, "*Is the Authority better off or worse off as a result of this year's activities?*" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Authority's *net position* and changes in them. One can think of the Authority's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as a way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions.

**Condensed Statements of Net Position**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Change</u>
<b>Assets:</b>			
Current assets	\$ 5,866,572	\$ 5,916,916	\$ (50,344)
Capital assets, net	9,776,435	10,454,687	(678,252)
<b>Total assets</b>	<u>15,643,007</u>	<u>16,371,603</u>	<u>(728,596)</u>
<b>Deferred outflows of resources</b>	<u>2,303,885</u>	<u>2,575,190</u>	<u>(271,305)</u>
<b>Liabilities:</b>			
Current liabilities	2,292,840	1,488,518	804,322
Noncurrent liabilities	9,778,868	9,903,837	(124,969)
<b>Total liabilities</b>	<u>12,071,708</u>	<u>11,392,355</u>	<u>679,353</u>
<b>Deferred inflows of resources</b>	<u>971,715</u>	<u>895,691</u>	<u>76,024</u>
<b>Net position:</b>			
Investment in capital assets	9,776,435	10,454,687	(678,252)
Unrestricted (Deficit)	(4,872,966)	(3,795,940)	(1,077,026)
<b>Total net position</b>	<u>\$ 4,903,469</u>	<u>\$ 6,658,747</u>	<u>\$ (1,755,278)</u>

**South Bay Regional Public Communications Authority  
Management's Discussion and Analysis (Unaudited) (Continued)  
For the Years Ended June 30, 2019 and 2018**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred outflows of resources of the Authority exceeded liabilities and deferred inflows of resources by \$4,903,469 and \$6,658,747 as of June 30, 2019 and 2018.

By far the largest portion of the Authority's net position reflects its investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to its members and client agencies; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2019 and 2018, the Authority shows a negative balance in its unrestricted net position of (\$4,872,966) and (\$3,795,940) respectively, which is due primarily to the net pension liability on the statement of net position of \$6,570,432 and \$6,711,657, respectively. The Executive Committee has taken action to reserve aspects of the unrestricted net position for specified purposes such as operating reserves and future other post-employment benefits funding.

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Change</u>
<b>Revenues:</b>			
Operating revenues	\$ 12,842,859	\$ 12,743,300	\$ 99,559
Non-operating revenues	1,590,362	3,575,566	(1,985,204)
Total revenues	<u>14,433,221</u>	<u>16,318,866</u>	<u>(1,885,645)</u>
<b>Expenses:</b>			
Operating expenses	15,463,621	12,262,734	3,200,887
Depreciation expense	724,878	689,166	35,712
Total expenses	<u>16,188,499</u>	<u>12,951,900</u>	<u>3,236,599</u>
<b>Change in net position</b>	<u>(1,755,278)</u>	<u>3,366,966</u>	<u>(5,122,244)</u>
<b>Net Position:</b>			
Beginning of year	<u>6,658,747</u>	<u>3,291,781</u>	<u>3,366,966</u>
End of year	<u>\$ 4,903,469</u>	<u>\$ 6,658,747</u>	<u>\$ (1,755,278)</u>

The Statement of Revenues, Expenses, and Changes in Net Position show how the Authority's net position changed during the fiscal year. In the case of the Authority, net position decreased by 1,755,278 and increased by \$3,366,966, respectively, for the years ended June 30, 2019 and 2018.

In 2019, a closer examination of the sources of changes in net position reveals that the Authority's total revenues decreased by \$1,885,645, due primarily to additional revenue received from member cities for the purchase of mobile and portable radio equipment. In addition, total expenses increased by \$3,236,599 due primarily to the completion of purchase agreements with Motorola Solutions.

In 2018, a closer examination of the sources of changes in net position reveals that the Authority's total revenues increased by \$5,124,911, due primarily to the annual assessment received from Culver City and the additional revenue received from the billable parts as well as federal capital grants passed through by the City of Los Angeles. In addition, total expenses increased by \$1,888,766 due primarily to provide services for Culver City and the increase of pension liability.

**South Bay Regional Public Communications Authority  
Management's Discussion and Analysis (Unaudited) (Continued)  
For the Years Ended June 30, 2019 and 2018**

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**Capital Asset Administration**

Capital assets balances consisted of the following:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Non-depreciable assets	\$ 495,554	\$ 495,554
Depreciable assets	15,659,501	15,612,875
Accumulated depreciation	<u>(6,378,620)</u>	<u>(5,653,742)</u>
Total capital assets, net	<u>\$ 9,776,435</u>	<u>\$ 10,454,687</u>

The capital asset activities of the Authority are summarized above and in Note 3 to the basic financial statements.

**Conditions Affecting Current Financial Position**

The operations of the Authority are funded by assessments from its members. Changes in the economy are unlikely to directly impact the Authority. Management is not aware of past, present or future conditions that would have a significant impact on the Authority's financial position and/or net position.

**Requests for Information**

This financial report is designed to provide the Authority's funding sources, customers, stakeholders and other interested parties with an overview of the Authority's financial operations and financial condition. Questions regarding the information included in this report, or requests for additional financial information should be addressed to South Bay Regional Public Communications Authority, 4440 West Broadway, Hawthorne, CA 90250.

## **BASIC FINANCIAL STATEMENTS**

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**South Bay Regional Public Communications Authority**  
**Statements of Net Position**  
**June 30, 2019 and 2018**

ASSETS	2019	2018
<b>Current assets:</b>		
Cash and investments	\$ 4,000,395	\$ 5,186,709
Accounts receivable	1,706,055	166,679
Accrued interest receivable	20,529	19,958
Prepaid items	35,031	74,483
Materials and supplies inventory	104,562	469,087
<b>Total current assets</b>	5,866,572	5,916,916
<b>Noncurrent assets:</b>		
Capital assets, not being depreciated	495,554	495,554
Capital assets, being depreciated, net	9,280,881	9,959,133
<b>Total noncurrent assets</b>	9,776,435	10,454,687
<b>Total assets</b>	15,643,007	16,371,603
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resource related to pensions	2,180,994	2,434,654
Deferred outflows of resources related to other postemployment benefits	122,891	140,536
<b>Total deferred outflows of resources</b>	2,303,885	2,575,190
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	1,822,617	127,733
Accrued salaries and benefits	335,822	304,585
Member deposits and unearned revenue	-	928,840
Compensated absences, due within one year	134,401	127,360
<b>Total current liabilities</b>	2,292,840	1,488,518
<b>Noncurrent liabilities:</b>		
Compensated absences, due within more than one year	403,203	382,079
Net pension liability	6,570,432	6,711,657
Net other postemployment benefits liability	2,805,233	2,810,101
<b>Total noncurrent liabilities</b>	9,778,868	9,903,837
<b>Total liabilities</b>	12,071,708	11,392,355
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	617,583	616,789
Deferred inflows of resources related to other postemployment benefits	354,132	278,902
<b>Total deferred inflows of resources</b>	971,715	895,691
<b>NET POSITION</b>		
Investment in capital assets	9,776,435	10,454,687
Unrestricted (Deficit)	(4,872,966)	(3,795,940)
<b>Total net position</b>	\$ 4,903,469	\$ 6,658,747

**South Bay Regional Public Communications Authority**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating revenues:</b>		
Assessments from member cities	\$ 12,120,749	\$ 11,809,730
Charges for services	584,578	839,216
Reimbursement revenue	94,635	93,975
Other revenue	42,897	379
<b>Total operating revenues</b>	<b>12,842,859</b>	<b>12,743,300</b>
<b>Operating expenses:</b>		
Administration	2,413,667	2,424,003
Operations	7,455,599	7,066,802
Technical services	3,986,420	2,026,589
Other projects	1,607,935	745,340
Depreciation expense	513,272	533,902
Depreciation expense – SHSG Punta	211,606	155,264
<b>Total operating expenses</b>	<b>16,188,499</b>	<b>12,951,900</b>
<b>Operating loss</b>	<b>(3,345,640)</b>	<b>(208,600)</b>
<b>Nonoperating revenues:</b>		
Investment income	96,218	69,710
Contributed capital	1,494,144	3,505,856
<b>Total nonoperating revenues</b>	<b>1,590,362</b>	<b>3,575,566</b>
<b>Changes in net position</b>	<b>(1,755,278)</b>	<b>3,366,966</b>
<b>Net position:</b>		
Beginning of year	6,658,747	3,291,781
End of year	<b>\$ 4,903,469</b>	<b>\$ 6,658,747</b>

**South Bay Regional Public Communications Authority**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Cash receipts for dispatching services	\$ 10,374,643	\$ 13,377,760
Cash paid to vendors and suppliers for materials and services	(4,313,075)	(3,286,301)
Cash paid for salaries and wages	(8,791,047)	(8,377,199)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,729,479)</b>	<b>1,714,260</b>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of capital assets	(46,626)	(2,872,825)
Capital grant received	1,494,144	3,505,856
<b>Net cash provided by capital and related financing activities</b>	<b>1,447,518</b>	<b>633,031</b>
<b>Cash flows from investing activities:</b>		
Interest Received	95,647	55,716
<b>Net cash provided by investing activities</b>	<b>95,647</b>	<b>55,716</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,186,314)</b>	<b>2,403,007</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	5,186,709	2,783,702
End of year	<b>\$ 4,000,395</b>	<b>\$ 5,186,709</b>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities:</b>		
<b>Operating loss</b>	\$ (3,345,640)	\$ (208,600)
<b>Adjustments to reconcile operating income to net cash provided by (used in) operating activities:</b>		
Depreciation expense	724,878	689,166
<b>Operating assets, deferred outflows of resources, liabilities and deferred inflows of resources</b>		
(Increase) decrease in accounts receivable	(1,539,376)	29,352
(Increase) decrease prepaid items	39,452	53,042
(Increase) decrease materials and supplies inventory	364,525	(94,458)
(Increase) decrease pensions related deferred outflows of resources	253,660	(672,585)
(Increase) decrease OPEB related deferred outflows of resources	17,645	(140,536)
Increase (decrease) accounts payable and accrued expenses	1,694,884	57,254
Increase (decrease) accrued salaries and benefits	31,237	22,835
Increase (decrease) member deposits and unearned revenue	(928,840)	605,108
Increase (decrease) compensated absences	28,165	32,567
Increase (decrease) net pension liability	(141,225)	1,091,522
Increase (decrease) net other postemployment benefits liability	(4,868)	(52,045)
Increase (decrease) pensions related deferred inflows of resources	794	22,736
Increase (decrease) OPEB related deferred inflows of resources	75,230	278,902
<b>Total adjustments</b>	<b>616,161</b>	<b>1,922,860</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (2,729,479)</b>	<b>\$ 1,714,260</b>

See accompanying Notes to the Basic Financial Statements.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies**

***Organization and Operations of the Reporting Entity***

The South Bay Regional Public Communications Authority (the “Authority”) was organized on October 14, 1975, under the provisions of the Joint Exercise of Powers Act of the Government Code of the State of California. The purpose of the Authority is to provide a forum for discussion, study, development, implementation, operations, and maintenance of a consolidated regional public safety services communications system. At the present time, the Authority serves the Cities of Gardena, Hawthorne, and Manhattan Beach in the aforementioned capacity. Additionally, the Authority serves the Cities of Culver City, Hermosa Beach and El Segundo in a non-member capacity.

***Basis of Presentation***

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The financial statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and statement of cash flows) report information on all of the activities of the primary government. The Authority accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through member assessments and charges for services; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

***Use of Estimates***

The preparation of the basic financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results most likely will differ from those estimates.

***Cash and Cash Equivalents***

For the purpose of the statements of cash flows, the Authority considers cash and cash equivalents as cash on hand, demands deposits and short-term investments with original maturity of three months or less from the date of acquisition.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Investments***

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

***Accounts Receivable***

Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been reported. Historical experience indicates that uncollectible accounts receivable is immaterial.

***Prepaid Items***

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

***Materials and Supplies Inventory***

Materials and supplies inventory consist primarily of equipment for police vehicles such as sirens, modems, light fixtures and wire harness. Inventory is valued at cost using a weighted average cost method. Inventory items are charged to expense at the time that individual items are inventoried at year-end.

***Capital Assets***

Capital assets acquired and/or constructed are capitalized at historical cost. The Authority's policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated acquisition value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful life of the assets. The estimated useful life of buildings, automobiles, property, and equipment ranges from five to forty years.

***Construction-in-Process***

The costs associated with developmental stage projects are accumulated in an in-progress account until the project is fully developed. Once the project is complete and in use, the entire cost of the project is transferred to a capital asset account and depreciated over its estimated useful life.

***Deferred Outflows of Resources and Deferred Inflows of Resources***

In accordance with U.S. GAAP, the Statement of Net Position reports separate sections for deferred outflows of resources, and deferred inflows of resources, when applicable.

**Deferred Outflows of Resources** represent outflows of resources (consumption of net position) that apply to future periods; therefore, will not be recognized as an expense until that time.

**Deferred Inflows of Resources** represent inflows of resources (acquisition of net position) that apply to future periods; therefore, will not be recognized as a revenue until that time

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Compensated Absences***

The Authority accounts for compensated absences (unpaid vacation, compensatory time and holiday leave) in accordance with U.S. GAAP. The Authority is required to accrue a liability, with a corresponding charge to current operations, for employees' right to receive compensation in future years when certain conditions are met. The Authority accrues unpaid vacation, compensatory time and holiday leave.

***Pensions***

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net pension of the Authority's pension plans and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

For the year ended June 30, 2019

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

For the year ended June 30, 2018

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period.

***Other Postemployment Benefits ("OPEB")***

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's OPEB Plans and additions to/deductions from the OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Other Postemployment Benefits (“OPEB”) (Continued)***

The following timeframes are used for OPEB reporting:

For the year ended June 30, 2019

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

For the year ended June 30, 2018

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized using the straight-line method over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

***Net Position***

The financial statements utilize a net position presentation. Net position is categorized as follows:

**Investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation.

**Restricted** – This component of net position consists of external constraints placed on net position imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There is no restricted net position reported by the Authority at June 30, 2019 and 2018.

**Unrestricted** – This component of net position is the amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of investments in capital assets or the restricted component of net position.

***Reclassification***

The reimbursement from the state and other governmental agencies revenue in the amount of \$93,975 was reclassified from operating revenue to nonoperating revenue in the Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2018. The reclassification also resulted in reclassifying the same amount from cash provided by operating activities to cash provided by noncapital financing activities in the Statements of Cash Flows for the year ended June 30, 2018.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Accounting Changes***

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

**Note 2 – Cash and Investments**

Cash and investments consisted of the following:

Description	June 30, 2019	June 30, 2018
Cash on hand	\$ 500	\$ 816
Demand deposits with financial institutions	792,035	568,680
Investments	3,207,860	4,617,213
Total cash and investments	<u>\$ 4,000,395</u>	<u>\$ 5,186,709</u>

***Demand Deposits***

At June 30, 2019 and 2018, the carrying amount of the Authority’s demand deposits was \$792,035 and \$568,680, respectively, and the financial institution balance was \$860,362 and \$653,877, respectively. The differences of \$68,327 and \$85,197 at June 30, 2019 and 2018, respectively, represent outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

The collateral for deposits in federal and state-chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 2 – Cash and Investments (Continued)**

***Authorized Investments and Investment Policy***

The Authority has adopted an investment policy directing the Fiscal Officer to deposit funds in financial institutions. Investments are to be made in the following areas:

State Investment Pool	100% of portfolio, maximum
County Investment Pool	50% of portfolio, maximum
U.S. Federal Agencies	33-1/3% maximum for each agency; 60% maximum overall
U.S. Treasuries	No Limit
Certificates of Deposits	20% Maximum
Negotiable certificates of deposit	20% Maximum

***Custodial Credit Risk***

The custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's investment policy requires that collateral be held by an independent third party with whom the Authority has a current custodial agreement.

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority's investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the Authority's bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2019, and 2018 none of the Authority's deposits and investments was exposed to custodial credit risk.

***Investments***

The Authority's investments as of June 30, 2019 were as follows:

Investments	Measurement Input	Credit Rating	Maturity	
			June 30, 2019 Fair Value	12 Months or Less
<b>External Investment Pools:</b>				
California Local Agency Investment Fund (LAIF)	Uncategorized	Not Rated	\$ 3,207,860	\$ 3,207,860
<b>Total investments</b>			<b>\$ 3,207,860</b>	<b>\$ 3,207,860</b>

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 2 – Cash and Investments (Continued)**

***Investments (Continued)***

The Authority's investments as of June 30, 2018 were as follows:

<u>Investments</u>	<u>Measurement Input</u>	<u>Credit Rating</u>	<u>Maturity</u>	
			<u>June 30, 2018 Fair Value</u>	<u>12 Months or Less</u>
<b>External Investment Pools:</b>				
California Local Agency Investment Fund (LAIF)	Uncategorized	Not Rated	\$ 4,617,213	\$ 4,617,213
<b>Total investments</b>			<b>\$ 4,617,213</b>	<b>\$ 4,617,213</b>

***Investment in California – Local Agency Investment Fund (LAIF)***

The Authority is a voluntary participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Further information about LAIF is available on the California State Controller's website: [www.treasurer.ca.gov/pmia-laif/](http://www.treasurer.ca.gov/pmia-laif/)

The Authority's investments with LAIF at June 30, 2019 and 2018, included a portion of the pool funds invested in structured notes and asset-backed securities:

**Structured Notes:** debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

**Asset-Backed Securities:** generally, mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

The Authority had \$3,207,860 and \$4,617,213 invested in LAIF, which had invested 1.77% and 2.67% of the pooled investment funds at June 30, 2019 and June 30, 2018, respectively, in structured notes and medium-term asset-backed securities. The investment in LAIF is reported at amortized cost.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 3 – Capital Assets**

A summary of changes in the capital assets for the year ended June 30, 2019 is as follows:

	<b>Balance July 1, 2018</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2019</b>
<b>Nondepreciable assets:</b>				
Land and easements	\$ 495,554	\$ -	\$ -	\$ 495,554
<b>Total nondepreciable assets</b>	<b>495,554</b>	<b>-</b>	<b>-</b>	<b>495,554</b>
<b>Depreciable assets:</b>				
Buildings and improvements	6,389,356	-	-	6,389,356
Vehicles and equipment	9,223,519	46,626	-	9,270,145
<b>Total depreciable assets</b>	<b>15,612,875</b>	<b>46,626</b>	<b>-</b>	<b>15,659,501</b>
<b>Accumulated depreciation:</b>				
Buildings and improvements	(2,523,081)	(179,098)	-	(2,702,179)
Vehicles and equipment	(3,130,661)	(545,780)	-	(3,676,441)
<b>Total accumulated depreciation</b>	<b>(5,653,742)</b>	<b>(724,878)</b>	<b>-</b>	<b>(6,378,620)</b>
<b>Total depreciable assets, net</b>	<b>9,959,133</b>	<b>(678,252)</b>	<b>-</b>	<b>9,280,881</b>
<b>Total capital assets, net</b>	<b>\$ 10,454,687</b>	<b>\$ (678,252)</b>	<b>\$ -</b>	<b>\$ 9,776,435</b>

A summary of changes in the capital assets for the year ended June 30, 2018 is as follows:

	<b>Balance July 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2018</b>
<b>Nondepreciable assets:</b>				
Land and easements	\$ 495,554	\$ -	\$ -	\$ 495,554
<b>Total nondepreciable assets</b>	<b>495,554</b>	<b>-</b>	<b>-</b>	<b>495,554</b>
<b>Depreciable assets:</b>				
Buildings and improvements	6,389,356	-	-	6,389,356
Vehicles and equipment	6,350,694	2,872,825	-	9,223,519
<b>Total depreciable assets</b>	<b>12,740,050</b>	<b>2,872,825</b>	<b>-</b>	<b>15,612,875</b>
<b>Accumulated depreciation:</b>				
Buildings and improvements	(2,343,983)	(179,098)	-	(2,523,081)
Vehicles and equipment	(2,620,593)	(510,068)	-	(3,130,661)
<b>Total accumulated depreciation</b>	<b>(4,964,576)</b>	<b>(689,166)</b>	<b>-</b>	<b>(5,653,742)</b>
<b>Total depreciable assets, net</b>	<b>7,775,474</b>	<b>2,183,659</b>	<b>-</b>	<b>9,959,133</b>
<b>Total capital assets, net</b>	<b>\$ 8,271,028</b>	<b>\$ 2,183,659</b>	<b>\$ -</b>	<b>\$ 10,454,687</b>

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 4 – Member Deposits and Unearned Revenue**

As of June 30, 2018, the City of El Segundo prepaid its fiscal year 2018-2019 first-quarter installment to the Authority of in the amount \$928,840.

**Note 5 – Compensated Absences**

A summary of changes in compensated absences for the year ended June 30, 2019 and 2018 is as follows:

<u>Year Ended</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>	<u>Due in More Than One Year</u>
June 30, 2019	\$ 509,439	\$ 989,070	\$ (960,905)	\$ 537,604	\$ 134,401	\$ 403,203
June 30, 2018	\$ 476,872	\$ 990,987	\$ (958,420)	\$ 509,439	\$ 127,360	\$ 382,079

**Note 6 – Deferred Compensation Savings Plan**

For the benefit of its employees, the Authority participates in a 457 Deferred Compensation Programs (Programs). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Authority is in compliance with this legislation. Therefore, these assets are not the legal property of the Authority, and are not subject to claims of the Authority’s general creditors and are not included in the accompanying financial statements. Market value of all plan assets held in trust by ICMA-RC Services, LLC at June 30, 2019 and 2018 was \$4,053,986 and \$2,270,780, respectively.

**Note 7 – Defined Benefit Pension Plan**

***General Information about the Pension Plans***

***Plan Description***

The Authority contributes to the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2017 and 2016 Annual Actuarial Valuation Reports. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 7 – Defined Benefit Pension Plan (Continued)**

*General Information about the Pension Plans (Continued)*

Members Covered by Benefit Terms

At June 30, 2017 and 2016, valuation dates, the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>2017</u>			<u>2016</u>		
	<u>Classic Tier 1</u>	<u>Classic Tier 2</u>	<u>PEPRA Tier 3</u>	<u>Classic Tier 1</u>	<u>Classic Tier 2</u>	<u>PEPRA Tier 3</u>
Active members	43	8	14	45	3	9
Transferred and terminated members	82	5	6	87	4	4
Retired members and beneficiaries	67	-	-	58	-	-
<b>Total plan members</b>	<b>192</b>	<b>13</b>	<b>20</b>	<b>190</b>	<b>7</b>	<b>13</b>

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A classic CalPERS member becomes eligible for Service Retirement upon attainment of age 55 with at least five (5) years of credited service. Public Employee Pension Reform Act (PEPRA) miscellaneous members become eligible for service retirement upon attainment of age 62 with at least five (5) years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the highest average annual compensation during any consecutive 12-or 36-month period of employment. Retirement benefits for classic miscellaneous employees are calculated as 2% of the highest average annual compensation during any consecutive 12-or 36-month period of employment. Retirement benefits for PEPRA miscellaneous employees are calculated as 2% of the average final three (3) year compensation.

Participant is eligible for non-industrial disability retirement if they become disabled and has at least five (5) years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the Authority to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5% per year, plus a lump sum in the amount of one month salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2%.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 7 – Defined Benefit Pension Plan (Continued)**

***General Information about the Pension Plans (Continued)***

*Contributions*

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members.

For the measurement period ended June 30, 2017, the active member contribution rates for the Classic Miscellaneous Plan Tier 1, Tier 2 and the PEPRM Miscellaneous Plan are 7.00%, 7.00% and 6.25% of annual pay, respectively, and the employer contribution rates are 8.880%, 7.159% and 6.555% of annual payroll, respectively.

For the measurement period ended June 30, 2018, the active member contribution rates for the Classic Miscellaneous Plan Tier 1, Tier 2 and the PEPRM Miscellaneous Plan are 7.00%, 7.00% and 6.25% of annual pay, respectively, and the employer contribution rates are 8.921%, 7.200% and 6.533% of annual payroll, respectively.

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans***

*Actuarial Methods and Assumptions Used to Determine the Total Pension Liability*

The June 30, 2017 and 2016 valuations were rolled forward to determine the June 30, 2018 and 2017 total pension liabilities, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table <sup>1</sup>	Derived using CalPERS’ Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

<sup>1</sup>The mortality table used in 2018 was developed based on CalPERS’ specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to December 2017 Experience Study Report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

The mortality table used in 2017 was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to 2014 experience study report.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 7 – Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Change of Assumption

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate was reduced from 7.65 to 7.15 percent.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as followed:

<u>Asset Class<sup>1</sup></u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10<sup>2</sup></u>	<u>Real Return Years 11+<sup>3</sup></u>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
	<u>100.00%</u>		

<sup>1</sup>In the Calpers CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments, Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

<sup>2</sup>An Expected inflation of 2.00% used for this period

<sup>3</sup>An Expected inflation of 2.92% used for this period

Discount Rate

The discount rate used to measure the 2018 and 2017 total pension liabilities were both 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 7 – Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

*Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Authority's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate for the June 30, 2018 and 2017 Measurement Date as follows:

Measurement Date	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1%	Current Discount	Discount Rate + 1%
	6.15%	Rate 7.15%	8.15%
June 30, 2018	\$ 10,868,988	\$ 6,570,432	\$ 3,022,044
June 30, 2017	\$ 10,796,509	\$ 6,711,657	\$ 3,328,510

*Pension Plan Fiduciary Net Position*

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

*Proportionate Share of Net Pension Liability and Pension Expense*

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
Balance as of June 30, 2017 (Valuation Date)	\$ 29,697,882	\$ 22,986,225	\$ 6,711,657
Balance as of June 30, 2018 (Measurement Date)	31,777,327	25,206,895	6,570,432
<b>Net Changes during 2017-2018</b>	2,079,445	2,220,670	(141,225)
Balance as of June 30, 2016 (Valuation Date)	\$ 26,135,516	\$ 20,515,381	\$ 5,620,135
Balance as of June 30, 2017 (Measurement Date)	29,697,882	22,986,225	6,711,657
<b>Net Changes during 2016-2017</b>	3,562,366	2,470,844	1,091,522

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 7 – Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool for the measurement periods ended June 30, 2018 and 2017.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2017 and 2016). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2018 and 2017). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2018 and 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2017-2018 and 2016-2017).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan’s share of the actuarial accrued liability. FNP is allocated based on the rate plan’s share of the market value assets.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the measurement date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the measurement date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense is allocate based on the Authority’s share of risk pool actuarial accrued liability at the beginning of measurement period.

The Authority’s proportionate share of the net pension liability was as follows:

2019		2018	
Measurement Date		Measurement Date	
June 30, 2017	0.067677%	June 30, 2016	0.064949%
June 30, 2018	0.068180%	June 30, 2017	0.067677%
Change - Increase (Decrease)	0.000503%	Change - Increase (Decrease)	0.002728%

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 7 – Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

*Proportionate Share of Net Pension Liability and Pension Expense (Continued)*

For the years ended June 30, 2019 and 2018, the Authority recognized pension expense in the amount of \$920,324 and \$1,134,356, respectively.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the measurement date ended June 30, 2018 and 2017 are both 3.8 years, which was obtained by dividing the total service years of 516,147 and 490,088 (the sum of remaining service lifetimes of the active employees) by 135,474 and 130,595 (the total number of participants: active, inactive, and retired), respectively.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2019</u>		<u>2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions made after the measurement date	\$ 807,095	\$ -	\$ 692,687	\$ -
Adjustment due to differences in proportions	340,271	-	212,489	(68,321)
Differences between expected and actual experience	252,096	(85,787)	9,988	(143,091)
Differences between projected and actual earnings on pension plan investments	32,483	-	280,262	-
Difference between actual and proportionate share of employer contributions	-	(348,219)	1,239,228	(310,885)
Changes in assumptions	749,049	(183,577)	-	(94,492)
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<u>\$ 2,180,994</u>	<u>\$ (617,583)</u>	<u>\$ 2,434,654</u>	<u>\$ (616,789)</u>

Deferred outflows of resources related to pensions resulting from Authority’s contributions subsequent to the measurement date in the amount of \$807,095 and \$692,687 will be recognized as a reduction of the collective net pension liability in the years ending June 30, 2020 and 2019, respectively.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 7 – Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

*Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)*

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense in future periods as follows:

<u>Year Ending June 30,</u>	<u>Deferred Outflows / (Inflows) of Resources</u>		<u>Year Ending June 30</u>	<u>Deferred Outflows / (Inflows) of Resources</u>	
	<u>2019</u>			<u>2018</u>	
2020	\$	634,026	2019	\$	168,350
2021		369,765	2020		702,380
2022		(188,378)	2021		420,845
2023		(59,097)	2022		(166,397)
2024		-	2023		-
Thereafter		-	Thereafter		-
<b>Total</b>	<b>\$</b>	<b>756,316</b>	<b>Total</b>	<b>\$</b>	<b>1,125,178</b>

**Note 8 – Other Postemployment Benefits (“OPEB”)**

*General Information about the OPEB Plan*

*Plan Description*

The Authority provides certain health insurance benefits, in accordance with a memorandum of understanding with its retired employees. Employees, who are at least 50 years of age and have 10 years continuous service with the Authority, become eligible for benefits if they reach normal retirement age while working for the Authority. The benefits for various bargaining groups are as follows:

*Teamsters (Communications Operators):*

- 10 years of service – will get \$200/mo. from retirement date till age 65
- 15 years of service – will get \$300/mo. from retirement date till age 65
- 20 years of service – will get \$500/mo. from retirement date till age 65

Those who retired prior to July 1, 2008, shall continue to receive \$582 per month, until age 65 as long as the Authority remains in the Public Employees’ Medical & Hospital Care Act (PEMHCA); if no longer in PEMHCA, they will receive above depending on years of service. This includes the minimum contribution required under Government Code Section 22892(b) of PEMHCA, \$133 per month for 2019 and 2018.

*Teamsters (Communications Technicians):*

- 10 years of service – will get \$200/mo. from retirement date till age 65
- 15 years of service – will get \$300/mo. from retirement date till age 65
- 20 years of service – will get \$500/mo. from retirement date till age 65

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)**

***General Information about the OPEB Plan (Continued)***

***Plan Description (Continued)***

***Teamsters (Communications Technicians) (Continued):***

Those who retire prior to July 1, 2008, shall continue to receive \$960 per month, until age 65 as long as the Authority remains in PEMHCA; if no longer in PEMHCA, they will receive above depending on years of service. This includes the minimum contribution required under Government Code Section 22892(b) of PEMHCA, \$133 per month for 2019 and 2018.

***CWA (Communications Supervisors):***

- 15 years of service – will get \$250/mo. from retirement date till age 65
- 20 years of service – will get \$450/mo. from retirement date till age 65

Those who retire from the Authority before July 1, 2014 receive \$750 per month, until age 65 as long as the Authority remains in PEMHCA, or the above if no longer in PEMHCA. This includes the minimum contribution required under Government Code Section 22892(b) of PEMHCA, \$133 per month for 2019 and \$122 for 2018.

***Management & Confidential***

Management and confidential employees receive a benefit of \$40 times the number of years of service as a monthly benefit from their retirement date until the age of 65 (with minimum 10 years of service with the Authority). Those who retire before July 1, 2019 with a minimum 10 years of service shall receive \$960 per month until age 65 as long as the Authority remains in PEMHCA, or the above if no longer in PEMHCA. This includes the minimum contribution required under Government Code Section 22892(b) of PEMHCA, \$133 per month for 2019 and \$115 for 2018.

***All Bargaining Groups***

The Authority currently contracts with CalPERS for employee group insurance health benefits. If the Authority should terminate its contract with CalPERS, all employees hired prior to April 1, 1986, who are ineligible to participate in Medicare and retire from a classification covered by the memorandum of understanding of each bargaining unit, are receiving retirement benefits from CalPERS and have a minimum of twenty (20) years of full-time employment, shall be entitled to enroll in an Authority-selected health benefit plan. The benefits provided in the health plan selected by the Authority shall equal or exceed the benefits the employee would have received had he/she been eligible to participate in Medicare. The Authority agrees to pay the cost of coverage for the plan in which the employee is enrolled. If the employee resides outside the State of California at the time of eligibility, the Authority agrees to pay the employee the cash equivalent of the cost of coverage for the plan in which the employee would have been enrolled had he/she lived in California. This benefit commences upon the employee reaching the age of 65, at which time he/she would have otherwise been eligible to participate in Medicare. The benefit shall cease if and when the employee becomes eligible to participate in Medicare or an equivalent Government health benefit program.

***Employees Covered by the Benefit Term***

The following employees were covered by the benefit terms at June 30, 2017, valuation date:

Active employees	57
Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to, but not yet receiving benefits	1
Total	70

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)**

***General Information about the OPEB Plan (Continued)***

*Contributions*

The contribution requirements of plan members and the Authority is established and may be amended by the Authority’s Management or the Board of Directors. For the years ended June 30, 2019 and 2018, the average contribution rate was not applicable. Employees are not required to contribute to the plan. The Authority made contributions on pay-as-you-go basis.

***Net OPEB Liability***

The Authority’s 2019 and 2018 net OPEB liabilities were measured as of June 30, 2018 and 2017, respectively, and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by an actuarial valuation as of June 30, 2017.

*Actuarial Assumptions*

Total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Valuation Date	June 30, 2017																
Contribution Policy	No Pre-funding																
Discount Rate	3.87% at June 30, 2018 (Bond Buyer 20-year index) 3.58% at June 30, 2017 (Bond Buyer 20-year index)																
Expected Long-term Rate of Return on investment	N/A																
General Inflation	2.75% per annum																
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study																
Mortality Improvement	Mortality projected fully generation with Scale MP-17 for post-retirement mortality																
Salary increases	Aggregate 3% annually																
Medical Trend	Merit - CalPERS 1997-2015 Experience Study Non Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years																
PEHCA Minimum Increase	4.25% annually																
Participation at Retirement	Actives: Based on the supplemental benefit amount																
	<table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="border: none;">Suppl Benefit</th> <th style="border: none;">Participation</th> <th style="border: none;">Suppl Benefit</th> <th style="border: none;">Participation</th> </tr> </thead> <tbody> <tr> <td style="border: none;">\$0-\$99</td> <td style="border: none; text-align: center;">50.0%</td> <td style="border: none;">\$300-\$499</td> <td style="border: none; text-align: center;">85.0%</td> </tr> <tr> <td style="border: none;">\$100-\$199</td> <td style="border: none; text-align: center;">75.0%</td> <td style="border: none;">\$500+</td> <td style="border: none; text-align: center;">90.0%</td> </tr> <tr> <td style="border: none;">\$200-\$299</td> <td style="border: none; text-align: center;">80.0%</td> <td></td> <td></td> </tr> </tbody> </table>	Suppl Benefit	Participation	Suppl Benefit	Participation	\$0-\$99	50.0%	\$300-\$499	85.0%	\$100-\$199	75.0%	\$500+	90.0%	\$200-\$299	80.0%		
Suppl Benefit	Participation	Suppl Benefit	Participation														
\$0-\$99	50.0%	\$300-\$499	85.0%														
\$100-\$199	75.0%	\$500+	90.0%														
\$200-\$299	80.0%																
Spouse Coverage	Retirees: Based on current coverage Actives: current election if covered, 20% if waived Retirees: current election																

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)**

***Net OPEB Liability (Continued)***

**Discount Rate**

The discount rates of 3.87% and 3.58% were used during measurement periods June 30, 2018 and 2017, respectively. The Authority used the Bond Buyer 20-Bond GO index along with the assumed long-term inflation assumption to set the discount rate.

**Change in Assumption**

The discount rate change from 3.87% to 3.58% from measurement periods ended June 30, 2017 to June 30, 2018.

**Change in Total OPEB Liability**

	<b>2019</b>		
	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability</b>
Balance at June 30, 2017 (measurement date)	\$ 2,810,101	\$ -	\$ 2,810,101
Changes Recognized for the Measurement Period:			
Service Cost	143,129	-	143,129
Interest on the total OPEB liability	103,266	-	103,266
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	(113,847)	-	(113,847)
Contribution from the employer	-	137,416	(137,416)
Net investment income	-	-	-
Administrative expenses	-	-	-
Benefit payments	(137,416)	(137,416)	-
Net changes during measurement 2017-2018	(4,868)	-	(4,868)
Balance at June 30, 2018 (measurement date)	<u>\$ 2,805,233</u>	<u>\$ -</u>	<u>\$ 2,805,233</u>
	<b>2018</b>		
	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability</b>
Balance at June 30, 2016 (measurement date)	\$ 2,992,097	\$ -	\$ 2,992,097
Changes Recognized for the Measurement Period:			
Service Cost	163,778	-	163,778
Interest on the total OPEB liability	88,136	-	88,136
Changes in benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	(307,074)	-	(307,074)
Contribution from the employer	-	126,836	(126,836)
Net investment income	-	-	-
Administrative expenses	-	-	-
Benefit payments	(126,836)	(126,836)	-
Net changes during measurement 2016-2017	(181,996)	-	(181,996)
Balance at June 30, 2017 (measurement date)	<u>\$ 2,810,101</u>	<u>\$ -</u>	<u>\$ 2,810,101</u>

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)**

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

The following presents the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement periods ended June 30, 2018 and June 30, 2017:

Measurement Date	Plan's Total OPEB Liability		
	Discount Rate -1% (2.87%)	Current Discount Rate (3.87%)	Discount Rate +1% (4.87%)
June 30, 2018	\$ 3,230,612	\$ 2,805,233	\$ 2,461,515
Measurement Date	Discount Rate -1% (2.58%)	Current Discount Rate (3.58%)	Discount Rate +1% (4.58%)
June 30, 2017	\$ 3,244,596	\$ 2,810,101	\$ 2,461,674

*Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates*

The following presents the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates, for the measurement periods ended June 30, 2018 and June 30, 2017:

Measurement Date	Plan's Total OPEB Liability		
	Healthcare Cost Trend Rate -1%	Current Healthcare Cost Trend Rate	Healthcare Cost Trend Rate +1%
June 30, 2018	\$ 2,405,530	\$ 2,805,233	\$ 3,323,970
June 30, 2017	\$ 2,423,574	\$ 2,810,101	\$ 3,313,095

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the years ended June 30, 2019, and June 30, 2018, the Authority recognize OPEB expense in the amount of \$210,898 and \$226,862, respectively. At June 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after measurement date	\$ 122,891	\$ -	\$ 140,536	\$ -
Changes in assumptions	-	354,132	-	278,902
Total	\$ 122,891	\$ 354,132	\$ 140,536	\$ 278,902

The Expected Average remaining service Lifetime (“EARSL”) is calculated by dividing the total future service years by total number of covered participants in the plan. The EARSL for the plan at the beginning of measurement period June 30, 2018 and June 30, 2017 are both 10.9 years, which was obtained by dividing the total services years of 753 by 69 covered participants.

Other amounts reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)**

Deferred outflows of resources related to OPEB resulting from Authority’s contributions subsequent to the measurement date in the amounts of \$122,891 and \$140,536 will be recognized as a reduction of the net OPEB liability in the years ending June 30, 2020 and 2019, respectively.

<u>Year Ending June 30,</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>	<u>Year Ending June 30,</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>
<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
2020	\$ (38,617)	2019	\$ (28,172)
2021	(38,617)	2020	(28,172)
2022	(38,617)	2021	(28,172)
2023	(38,617)	2022	(28,172)
2024	(38,617)	2023	(28,172)
Thereafter	(161,047)	Thereafter	(138,042)
<b>Total</b>	<b>\$ (354,132)</b>	<b>Total</b>	<b>\$ (278,902)</b>

**Note 9 – Conduit Debt**

The Authority issued 3 series of bonds to finance the costs of acquisition, construction, installation, and equipping of main facility with emergency communications equipment (the “Project”) in January 2001 on behalf of the cities of Gardena, Hawthorne, and Manhattan Beach. The 2001 Revenue Bonds Series A in the amount of \$3,060,000 (Gardena), the 2001 Variable Rate Demand Revenue Bonds Series B in the amount of \$4,300,000 (Hawthorne), and the 2001 Variable Rate Demand Revenue Bonds Series C in the amount of \$2,180,000 (Manhattan Beach), are payable from the revenues derived primarily from project financing and operating by the Cities of Gardena, Hawthorne, and Manhattan Beach, respectively.

In 2007, the Authority issued the 2007 Refunding Revenue Bonds, Series A in the amount of \$2,800,000 to fully refunded the 2001 Series A on behalf of the City of Gardena. The outstanding balances of the 2007 Series A was in the amount of \$1,645,000 as of June 30, 2019. The 2001 Revenue Bonds, Series B, were fully refunded by the City of Hawthorne’s private placement in 2016. The 2001 Revenue Bonds, Series C, were paid off by the City of Manhattan Beach.

The bonds were not reflected as the Agency’s long-term debt because the debt is solely payable from and secured by specific revenue sources described in the official statement. Neither the faith and credit of the Authority, nor the taxing power of the State of California or any political subdivision thereof, is pledged for payment of these bonds. Accordingly, since this debt does not constitute an obligation of the Authority, it is not included in the accompanying basic financial statements.

**Note 10 – Risk Management**

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is insured for all risks of loss through insurance companies. The following is a summary of the insurance policies carried by the Authority as of June 30, 2019:

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 10 – Risk Management (Continued)**

<u>Insurance Risk</u>	<u>Coverage per Incident</u>	<u>Coverage in Aggregate</u>	<u>Deductible</u>
Commerical general liability	\$ 1,000,000	\$ 1,000,000	\$ 15,000
Automobile	1,000,000	N/A	N/A
Automobile physical damage	Actual Cash Value	N/A	1,000
Professional Liability	1,000,000	1,000,000	15,000
Umbrella Excess Liability	4,000,000	4,000,000	N/A
Workers' compensation	Statutory	N/A	N/A
Property	5,200,000	5,200,000	2,500
Cyber liability	1,000,000	1,000,000	N/A

**Note 11 – Commitments and Contingencies**

***Grant Awards***

Grant funds received by the Authority are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Authority believes that such disallowances, if any, would not be significant.

***Litigation***

In the ordinary course of operations, the Authority is subject to claims and litigation from outside parties. In the opinion of the Authority's management, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**South Bay Regional Public Communications Authority**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the Authority's Proportionate Share of the Plan's Net Pension Liability and Related Ratio**  
**For the Years Ended June 30, 2019 and 2018**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Measurement date	June 30, 2014 <sup>1</sup>	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
Authority's proportion of the net pension liability	0.059500%	0.059500%	0.064949%	0.067677%	0.068180%
Authority's proportionate share of the net pension liability	\$ 4,084,007	\$ 4,084,007	\$ 5,620,134	\$ 6,711,657	\$ 6,570,432
Authority's covered payroll	\$ 4,485,167	\$ 4,665,871	\$ 4,773,439	\$ 5,184,067	\$ 5,270,919
Authority's proportionate share of the net pension liability as a percentage of covered payroll	91.06%	87.53%	117.74%	129.47%	124.65%
Plan's fiduciary net position as a percentage of the plan's total pension liability	79.82%	78.40%	74.06%	73.31%	75.26%

<sup>1</sup> Historical information is presented only for measurement periods for which GASB No. 68 is available.

**South Bay Regional Public Communications Authority**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Contributions - Pensions**  
**For the Years Ended June 30, 2019 and 2018**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Fiscal Year	<u>2013-14<sup>1</sup></u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
Actuarially determined contribution	\$ 480,107	\$ 507,694	\$ 553,317	\$ 634,790	\$ 692,687
Contribution in relation to the actuarially determined contribution	<u>(480,107)</u>	<u>(507,694)</u>	<u>(553,317)</u>	<u>(634,790)</u>	<u>(692,687)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	<u>\$ 4,485,167</u>	<u>\$ 4,665,871</u>	<u>\$ 4,773,439</u>	<u>\$ 5,184,067</u>	<u>\$ 5,270,919</u>
Contributions as a percentage of covered payroll	<u>10.70%</u>	<u>10.88%</u>	<u>11.59%</u>	<u>12.25%</u>	<u>13.14%</u>

<sup>1</sup> Historical information is presented only for measurement periods for which GASB No. 68 is available.

**Notes to the Schedule:**

Change in Benefit Terms: There were no changes to benefit Terms.

Change of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense. In 2014, amounts reported were based on the 7.5 percent discount rate

**South Bay Regional Public Communications Authority**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Contributions - Pensions (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Last Ten Fiscal Years**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

Fiscal Year	<u><b>2018-19</b></u>
Actuarially determined contribution	\$ 807,058
Contribution in relation to the actuarially determined contribution	<u>(807,095)</u>
Contribution deficiency (excess)	<u>\$ (37)</u>
Authority's covered payroll	<u>\$ 5,408,034</u>
Contributions as a percentage of covered payroll	<u>14.92%</u>

**South Bay Regional Public Communications Authority**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratio**  
**For the Years Ended June 30, 2019 and 2018**

Measurement Period	2016-2017 <sup>1</sup>	2017-2018
<b>Total OPEB Liability</b>		
Service Cost	\$ 163,778	\$ 143,129
Interest on the total OPEB liability	88,136	103,266
Changes in benefit terms	-	-
Difference between expected and actual experience	-	-
Changes in assumptions	(307,074)	(113,847)
Contribution from the employer	-	-
Benefit payments	(126,836)	(137,416)
<b>Net changes in total OPEB liability</b>	(181,996)	(4,868)
<b>Total OPEB liability, beginning</b>	2,992,097	2,810,101
<b>Total OPEB liability, ending (a)</b>	<u>\$ 2,810,101</u>	<u>\$ 2,805,233</u>
<b>Plan fiduciary net position:</b>		
Employer contribution	\$ 126,836	\$ 137,416
Employee contributions	-	-
Net investment income	-	-
Benefit payments	(126,836)	(137,416)
Other	-	-
<b>Net changes in fiduciary net position</b>	-	-
<b>Plan fiduciary net position, beginning</b>	-	-
<b>Plan fiduciary net position, ending (b)</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan net OPEB liability - ending (a) - (b)</b>	<u>\$ 2,810,101</u>	<u>\$ 2,805,233</u>
<b>Plan's fiduciary net position as a percentage of the total OPEB liability</b>	<u>0.00%</u>	<u>0.00%</u>
<b>Covered payroll</b>	<u>\$ 5,996,321</u>	<u>\$ 7,010,558</u>
<b>Plan Net OPEB liability as a percentage of covered payroll</b>	<u>46.86%</u>	<u>40.01%</u>

<sup>1</sup>Historical information is presented only for measurement periods for which GASB 75 is available

**South Bay Regional Public Communications Authority**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Contributions – Other Postemployment Benefits**  
**For the Years Ended June 30, 2019 and 2018**

**Last Ten Fiscal Years**

**Other Postemployment Benefits ("OPEB")**

Fiscal year	2016-17 <sup>1</sup>	2017-18	2018-19
Actuarially determined contribution	\$ 126,836	\$ 140,536	\$ 122,891
Contribution in relation to the actuarially determined contribution	(126,836)	(140,536)	(122,891)
Contribution deficiency / (excess)	\$ -	\$ -	\$ -
Authority's covered payroll <sup>2</sup>	\$ 5,996,321	\$ 7,010,558	\$ 7,220,875
Contributions as a percentage of covered payroll	2.12%	2.00%	1.70%

<sup>1</sup> Historical information is presented only for measurement periods for which GASB 75 is available.

<sup>2</sup> Payroll from 2018-2019 is \$7,220,875 was assumed to increase by the 3.00 percentage payroll growth assumption.

Notes to Schedule:

Valuation date:	June 30, 2017
Methods and assumptions used to determine contribution rates:	
Contribution Policy:	No pre-funding
Inflation:	2.75% per year
Investment return/discount rate:	3.87% at June 30, 2018 (Bond Buyer 20-year index) 3.58% at June 30, 2017 (Bond Buyer 20-year index)
Medical Trend	Non Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years
Payroll increase:	Aggregate 3% annually with merit - CalPERS 1997-2015 Experience Study
Mortality:	CalPERS 1997-2015 Experience Study

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